

**BATTLE CREEK DOWNTOWN
DEVELOPMENT AUTHORITY**

**(A Component Unit of the
City of Battle Creek, Michigan)**

Battle Creek, Michigan

**BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

**For The Year Ended
June 30, 2004**

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Battle Creek Downtown Development Authority	County Calhoun
Audit Date June 30, 2004	Opinion Date October 29, 2004	Date Accountant Report Submitted to State: November 17, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

Enclosed

To Be Forwarded

Not Required

The letter of comments and recommendations.

X

Reports on individual federal financial assistance programs (program audits).

X

Single Audit Reports (ASLGU).

X

Certified Public Accountant (Firm Name) REHMANN ROBSON GERALD J. DESLOOVER, CPA			
Street Address 5800 GRATIOT, PO BOX 2025	City SAGINAW	State MI	Zip 48605
Accountant Signature <i>Rehmann Robson</i>			

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY
(A Component Unit of the
City of Battle Creek, Michigan)

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REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

INDEPENDENT AUDITORS' REPORT

October 29, 2004

Board of Directors
Battle Creek Downtown Development Authority
City of Battle Creek, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the ***Battle Creek Downtown Development Authority, a component unit of the City of Battle Creek, Michigan***, as of and for the year ended June 30, 2004, which collectively comprise the Authority's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the ***Battle Creek Downtown Development Authority*** as of June 30, 2004, and the respective changes in its financial position and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Authority has not presented Management's Discussion and Analysis as required supplementary information. The Governmental Accounting Standards Board has determined that such information is necessary to supplement, although not required to be part of the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The continuing bond disclosures as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Authority. The continuing bond disclosures have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

BASIC FINANCIAL STATEMENTS

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY
Statement of Net Assets
June 30, 2004

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets			
Cash and investments	\$ 676,182	\$ 1,294,401	\$ 1,970,583
Interest receivable	4,272	-	4,272
Loans receivable, net	-	260,790	260,790
Prepaid items and other assets	-	101,271	101,271
Total assets	<u>680,454</u>	<u>1,656,462</u>	<u>2,336,916</u>
Liabilities			
Account payable and accrued liabilities	-	145,726	145,726
Accrued interest payable	410,338	-	410,338
Long-term liabilities:			
Due within one year	2,855,000	-	2,855,000
Due in more than one year	44,965,000	-	44,965,000
Total liabilities	<u>48,230,338</u>	<u>145,726</u>	<u>48,376,064</u>
Net assets			
Restricted for debt service	162	-	162
Restricted for loan commitments, minority lending and lending activity	-	1,510,736	1,510,736
Unrestricted (deficit)	<u>(47,550,046)</u>	<u>-</u>	<u>(47,550,046)</u>
Total net assets (deficit)	<u>\$ (47,549,884)</u>	<u>\$ 1,510,736</u>	<u>\$ (46,039,148)</u>

The accompanying notes are an integral part of these financial statements.

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY
Statement of Activities
For the Year Ended June 30, 2004

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues Charges for Services</u>	<u>Net (Expense) Revenue</u>
Governmental activities:			
Community development	\$ 835,220	\$ 1,999	\$ (833,221)
Interest on long-term debt	<u>2,615,668</u>	<u>-</u>	<u>(2,615,668)</u>
Total governmental activities	3,450,888	1,999	(3,448,889)
Business-type activities:			
Revolving loans (recoveries)	<u>(40,851)</u>	<u>20,345</u>	<u>61,196</u>
Totals	<u><u>\$ 3,410,037</u></u>	<u><u>\$ 22,344</u></u>	<u><u>\$ (3,387,693)</u></u>

Continued...

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY
Statement of Activities (Concluded)
For the Year Ended June 30, 2004

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Changes in net assets			
Net (expense) revenue	\$ (3,448,889)	\$ 61,196	\$ (3,387,693)
General revenues:			
Property taxes	6,254,124	-	6,254,124
Unrestricted investment earnings	3,197	10,209	13,406
Total general revenues	6,257,321	10,209	6,267,530
Change in net assets	2,808,432	71,405	2,879,837
Net assets (deficit), beginning of year	(50,358,316)	1,439,331	(48,918,985)
Net assets (deficit), end of year	\$ (47,549,884)	\$ 1,510,736	\$ (46,039,148)

The accompanying notes are an integral part of these financial statements.

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

**Balance Sheet
Governmental Funds
June 30, 2004**

	<u>General</u>	<u>Pipeline Bonds Debt Service</u>	<u>Total Governmental Funds</u>
Assets			
Pooled cash and investments	\$ 676,020	\$ 162	\$ 676,182
Interest receivable	<u>4,272</u>	<u>-</u>	<u>4,272</u>
Total assets	<u>\$ 680,292</u>	<u>\$ 162</u>	<u>\$ 680,454</u>
 Fund balances			
Unreserved, undesignated	<u>\$ 680,292</u>	<u>\$ 162</u>	<u>\$ 680,454</u>

The accompanying notes are an integral part of these financial statements.

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
June 30, 2004

Fund balances - total governmental funds	\$ 680,454
Amounts reported for governmental activities in the statement of net assets are different because:	
Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	
Deduct - bonds, installment contracts and loans payable	(47,820,000)
Deduct - accrued interest on bonds, loans and leases payable	<u>(410,338)</u>
Net assets (deficit) of governmental activities	<u>\$ (47,549,884)</u>

The accompanying notes are an integral part of these financial statements.

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY
Statement of Revenues, Expenditures
and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2004

	<u>General</u>	<u>Pipeline Bonds Debt Service</u>	<u>Total Governmental Funds</u>
Revenues			
Property taxes	\$ 6,254,124	\$ -	\$ 6,254,124
Interest	2,965	232	3,197
Other	1,999	-	1,999
	<u>6,259,088</u>	<u>232</u>	<u>6,259,320</u>
Expenditures			
Community development	835,221	-	835,221
Debt service:			
Principal	-	2,745,000	2,745,000
Interest and fiscal charges	-	2,645,604	2,645,604
	<u>835,221</u>	<u>5,390,604</u>	<u>6,225,825</u>
Revenue over (under) expenditures	<u>5,423,867</u>	<u>(5,390,372)</u>	<u>33,495</u>
Other financing sources (uses)			
Transfers in	-	5,390,439	5,390,439
Transfers out	(5,390,439)	-	(5,390,439)
	<u>(5,390,439)</u>	<u>5,390,439</u>	<u>-</u>
Net change in fund balances	33,428	67	33,495
Fund balances, beginning of year	<u>646,864</u>	<u>95</u>	<u>646,959</u>
Fund balances, end of year	<u><u>\$ 680,292</u></u>	<u><u>\$ 162</u></u>	<u><u>\$ 680,454</u></u>

The accompanying notes are an integral part of these financial statements.

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2004

Net change in fund balances - total governmental funds	\$ 33,495
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Amounts reported for governmental activities in the statement of activities
are different because:

Bond proceeds provide current financial resources to governmental funds in the period
issued, but issuing bonds increases long-term liabilities in the statement of net assets.
Repayment of bond principal is an expenditure in the governmental funds, but the
repayment reduces long-term liabilities in the statement of net assets.

Add - principal payments on long-term liabilities	2,745,000
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Some expenses reported in the statement of activities do not require the use of current
financial resources and therefore are not reported as expenditures in the funds.

Add - decrease in accrued interest payable on bonds	<u>29,937</u>
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Change in net assets of governmental activities	<u>\$ 2,808,432</u>
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The accompanying notes are an integral part of these financial statements.

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY
Statement of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual
General Fund
For the Year Ended June 30, 2004

	<u>Budget (Original and Final)</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
Revenues			
Property taxes	\$ 6,263,000	\$ 6,254,124	\$ (8,876)
Interest	20,000	2,965	(17,035)
Other	<u>-</u>	<u>1,999</u>	<u>1,999</u>
Total revenues	6,283,000	6,259,088	(23,912)
Expenditures			
Community development	<u>892,350</u>	<u>835,221</u>	<u>(57,129)</u>
Revenues over expenditures	5,390,650	5,423,867	33,217
Other financing uses			
Transfers out	<u>(5,419,257)</u>	<u>(5,390,439)</u>	<u>(28,818)</u>
Net change in fund balance	(28,607)	33,428	62,035
Fund balance, beginning of year	<u>646,864</u>	<u>646,864</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 618,257</u></u>	<u><u>\$ 680,292</u></u>	<u><u>\$ 62,035</u></u>

The accompanying notes are an integral part of these financial statements.

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Statement of Net Assets

Enterprise Fund

June 30, 2004

Assets

Cash and cash equivalents	\$ 1,047,997
Investments	246,404
Loans receivable, net (current portion \$61,650)	260,790
Prepaid items and other assets	<u>101,271</u>

Total assets	<u><u>1,656,462</u></u>
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Liabilities

Accounts payable	<u>145,726</u>
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Net assets

Restricted for loan commitments, minority lending and other lending activity	<u><u>\$ 1,510,736</u></u>
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The accompanying notes are an integral part of these financial statements.

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

**Statement of Revenues, Expenses and
Changes in Fund Net Assets - Enterprise Fund
For the Year Ended June 30, 2004**

Operating revenue	
Charges for services	<u>\$ 20,345</u>
Operating expenses	
Professional services	36,091
Loan loss provision (recovery)	<u>(76,942)</u>
Total operating expenses	<u>(40,851)</u>
Operating income	61,196
Non-operating revenue	
Interest income	<u>10,209</u>
Change in net assets	71,405
Net assets, beginning of year	<u>1,439,331</u>
Net assets, end of year	<u><u>\$ 1,510,736</u></u>

The accompanying notes are an integral part of these financial statements.

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Statement of Cash Flows Enterprise Fund For the Year Ended June 30, 2004

Cash flows from operating activities

Loans collected from borrowers	\$ 215,503
Interest and fees on loans	107,912
Loans made to borrowers	(106,000)
Administrative and other expenses paid	<u>(40,091)</u>
Net cash provided by operating activities	<u>177,324</u>

Cash flows from investing activities

Purchase of investments	(246,725)
Proceeds from sales and redemption of investments	418,198
Interest received on investments	<u>10,209</u>
Net cash provided by investing activities	<u>181,682</u>

Net increase in cash and cash equivalents	359,006
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Cash and cash equivalents, beginning of year	<u>688,991</u>
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Cash and cash equivalents, end of year	<u><u>\$ 1,047,997</u></u>
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Reconciliation of operating income to net cash provided by operating activities

Operating income	\$ 61,196
Adjustments to reconcile operating income to net cash from operating activities:	
Changes in assets and liabilities:	
Loans receivable	32,561
Accrued interest receivable	8,036
Other receivables	79,531
Accounts payable	<u>(4,000)</u>

Net cash provided by operating activities	<u><u>\$ 177,324</u></u>
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The accompanying notes are an integral part of these financial statements.

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Notes To Basic Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity – These financial statements present the activities of the Battle Creek Downtown Development Authority (the “Authority”). The Authority was established March 6, 1979 pursuant to Public Act 197 of 1975. The primary purpose of the Authority is to revitalize and encourage economic activity in the downtown business district. The Authority’s activities are primarily funded through tax increment financing, bonded debt and revolving loans.

The Authority is a component unit of the City of Battle Creek, Michigan (the “City”) because the City appoints the Authority’s Board of Directors, it has the ability to significantly influence the Authority’s operations and it is financially accountable for the Authority as defined under GASB Statement No. 14, *The Financial Reporting Entity*. Accordingly, the Authority is presented as a discrete component unit in the City’s financial statements and is an integral part of that reporting entity.

Government-wide and Fund Financial Statements – The statements of net assets and activities display information about the financial activities of the Authority. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the Authority’s *governmental* and *business-type activities*. Governmental activities generally are financed through taxes and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for revolving loans.

The statement of activities presents a comparison between direct expenses and program revenues for the business-type activity of the Authority and for each function of the Authority’s governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Measurement Focus, Basis of Accounting and Financial Statement Presentation – The government-wide financial information is reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Notes To Basic Financial Statements

Governmental fund financial information is reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

The Authority reports the following major governmental funds:

- General fund
- Pipeline bonds debt service fund

The *general fund* is the Authority's primary operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for in another fund.

The *debt service fund* accounts for the accumulation of resources for, and the payment of, interest and principal on bonded debt.

The *revolving loan enterprise fund* is used to account for loans made to local businesses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB.

Generally, the effect of interfund activity has been eliminated from the government-wide financial statements.

Capital Assets – The Authority has no capital assets for which it holds legal ownership. Infrastructure assets (e.g., roads, bridges, curbs, sidewalks, storm sewers and similar items), along with water and wastewater subsystems, constructed by the Authority are not recorded as the Authority's capital assets, even though the Authority may be obligated to repay the debt issued to finance the related projects. Such capital assets become the property of the City when they are placed into service and, accordingly, are reported in the City's capital assets.

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Notes To Basic Financial Statements

Long-term Obligations – In the government-wide financial statements, long-term debt is reported as a liability. Bond discounts, as well as issuance costs, if any, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Budgetary Information – The general fund is under formal budgetary control and its budget is prepared on the same modified accrual basis used to reflect actual results. The Authority follows the City budget process in establishing the budgetary data reflected in the financial statements:

- The Authority submits a proposed budget to the City Manager. After review and approval, the City Manager submits a recommended operating budget to the City Commission. Public hearings are held to obtain taxpayer comments. The budget is legally adopted through a City Commission resolution prior to the beginning of the budgetary year for the Authority's funds.
- The budget is adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted or amended by the City Commission during the year. Individual amendments were not material in relation to the original appropriations.

2. CASH AND INVESTMENTS

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits, short-term investments with original maturities of three months or less from the date of acquisition, and deposits in the City's cash and investment pool.

State statutes authorize the Authority to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Notes To Basic Financial Statements

At year-end, the carrying amount of the Authority's deposits in the City's internal cash management pool was \$676,182. Because it is infeasible to allocate risk to individual component units or pool participants, aggregate cash and investment categorizations are presented in the City's basic financial statements.

The Authority's remaining deposits and investments, which are entirely recorded in the Revolving Loan Fund (business-type activity), are classified under GASB Statement No. 3 under the following categories:

Deposits	\$ 1,047,997
Investments	<u>246,404</u>
Total	<u>\$ 1,294,401</u>

Deposits

The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared, or of deposits in transit) at \$1,047,997. Of that amount, \$200,000 was covered by federal depository insurance and the remainder of \$847,997 was uninsured and uncollateralized.

Investments

Investments are categorized into these three categories of credit risk:

- 1) Insured or registered, or securities held by the government or its agent in the government's name.
- 2) Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent in the government's name.
- 3) Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the government's name.

At year end, investment balances were as follows:

	<u>Category</u>	<u>Carrying/ Fair Value</u>
U.S. government obligations	1	<u>\$ 246,404</u>

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Notes To Basic Financial Statements

3. LOANS RECEIVABLE

The details of loans receivable outstanding as of June 30, 2004 are as follows:

Total loans outstanding	\$ 470,590
Less allowance for loan losses	<u>209,800</u>
Net loans outstanding	<u>\$ 260,790</u>

Of this amount, \$61,650 is expected to be collected within one year.

The Authority's revolving loan fund has outstanding commitments to make loans to businesses in the amount of \$46,000 at June 30, 2004.

4. LONG-TERM DEBT

Following is a summary of the Authority's debt outstanding as of June 30, 2004:

	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Outstanding Principal</u>
Revenue Bonds			
1997 Development Refunding	4.65-6.0%	05/01/20	<u>\$ 47,820,000</u>

In addition to the above obligations, the Authority has committed to contribute toward the repayment of two City of Battle Creek bond issues. Although not contractually obligated, the Authority intends to pay debt service on these obligations inasmuch as the projects financed by these bonds are within the boundaries of the Downtown Development Authority district. The Authority's share of the outstanding principal on these bonds as of June 30, 2004, was \$3,471,711, with interest rates ranging from 4.6% to 5.125%, and maturing through 2012.

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Notes To Basic Financial Statements

Annual debt service requirements to maturity for the Authority's debt, including the City of Battle Creek bond issues that the Authority intends to service, are as follows:

Year Ending June 30,	Authority Obligations		City Obligations	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 2,855,000	\$ 2,462,033	\$ 362,047	\$ 260,429
2006	2,870,000	2,326,420	382,347	243,268
2007	2,215,000	2,154,220	402,857	224,082
2008	2,715,000	2,021,320	424,513	203,106
2009	2,785,000	1,885,570	449,795	182,705
2010-2014	17,115,000	7,065,340	1,450,152	408,702
2015-2019	16,655,000	2,644,194	-	-
2020	610,000	31,262	-	-
Total	<u>\$47,820,000</u>	<u>\$ 20,590,359</u>	<u>\$ 3,471,711</u>	<u>\$ 1,522,292</u>

Advance Refundings. In prior years, the Authority defeased certain general obligation bonds by placing the proceeds of the bond issues in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Authority's financial statements. At June 30, 2004, \$46,815,000 of bonds outstanding are considered defeased.

Changes in Long-Term Debt. Long-term liability activity for the year ended June 30, 2004, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Revenue bonds	<u>\$50,565,000</u>	<u>\$ -</u>	<u>\$(2,745,000)</u>	<u>\$47,820,000</u>	<u>\$2,855,000</u>

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Notes To Basic Financial Statements

5. PROPERTY TAXES

Property tax revenue is derived pursuant to a tax increment financing agreement between the Authority and various applicable taxing districts. Real and personal property taxes are levied and attach as an enforceable lien on properties located within the boundaries of the tax increment financing district. The City of Battle Creek bills and collects the taxes on behalf of the Authority. Delinquent taxes on ad valorem real property are purchased by the County of Calhoun. Property tax revenue is recognized when levied in the government-wide financial statements, and in the fund financial statements to the extent that it results in current receivables.

Except for property taxes captured from local schools that exceed contractual obligations, the Authority is entitled to all taxes levied on property within the Downtown Development Authority district to the extent that the current taxable value exceeds the base year taxable value. The base year of initial properties was 1979, the inception date of the Authority. The base year on other properties is determined by the date of entry into the district. The Authority district was expanded in 1985, 1987 and 1993, and was reduced in 2000.

The taxable values for the 2003 levy are summarized below:

	<u>Base Year</u>	<u>Increment</u>	<u>Total</u>
Real property	\$ 59,176,123	\$ 67,732,578	\$ 126,908,701
Personal property	47,210,228	112,006,732	159,216,960
P.A. 255 property	955,425	(955,425)	-
P.A. 198 property	27,103,800	10,886,654	37,990,454
P.A. 189 property	306,470	368,657	675,127
P.A. 147 property	-	15,400	15,400

6. SUBSEQUENT EVENTS

In September 2004, the Authority issued \$55.3 million of adjustable rate refunding bonds to advance refund the 1997 development refunding bonds.

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SUPPLEMENTARY INFORMATION

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY
Continuing Bond Disclosures (Unaudited)

1. State Equalized Value (SEV) and Taxable Value (TV) of Ad Valorem Tax Roll

Assessed Value as of December 31	Year of Tax Levy	Fiscal Year Ended June 30	Ad Valorem SEV		Ad Valorem TV	
			Amount	% Change	Amount	% Change
2002	2003	2004	\$ 300,679,010	14.03%	\$ 286,125,661	13.76%
2001	2002	2003	263,688,054	-2.40%	251,509,977	-2.48%
2000	2001	2002	270,159,327	8.99%	257,903,342	12.40%
1999	2000	2001	247,870,250	-8.74%	229,459,885	-13.66%
1998	1999	2000	271,594,550	14.64%	265,771,050	14.11%
1997	1998	1999	236,918,025	-2.24%	232,905,000	-2.84%
1996	1997	1998	242,345,100	9.39%	239,723,350	8.97%

2. Taxable Value (TV) of Ad Valorem Tax Roll by Use

Fiscal Year Ended June 30	Homestead			Non-Homestead				Total
	Residential	Agriculture	Commercial	Residential	Agriculture	Commercial	Industrial	
2004	\$ 8,392,465	\$ 74,695	\$ 281,374	\$ 5,359,009	\$ -	\$ 68,483,541	\$ 203,534,577	\$ 286,125,661
2003	7,883,617	73,592	237,619	5,153,765	-	66,149,317	172,012,067	251,509,977
2002	7,362,058	71,311	269,052	4,738,687	-	68,358,646	177,103,588	257,903,342
2001	6,953,534	-	-	4,512,716	69,100	65,049,350	152,875,185	229,459,885
2000	6,953,534	-	-	4,133,866	124,100	58,701,700	195,857,850	265,771,050
1999	6,423,899	-	-	4,602,723	66,750	56,741,378	165,070,250	232,905,000
1998	6,155,984	-	-	4,348,616	65,000	51,701,650	177,452,100	239,723,350

3. Taxable Value (TV) of Ad Valorem Tax Roll by Class

Fiscal Year Ended June 30	Real	Personal	Total
2004	\$ 126,908,701	\$ 159,216,960	\$ 286,125,661
2003	112,590,677	138,919,300	251,509,977
2002	112,268,742	145,634,600	257,903,342
2001	97,508,785	131,951,100	229,459,885
2000	103,120,900	162,650,150	265,771,050
1999	89,277,600	143,627,400	232,905,000
1998	86,575,550	153,147,800	239,723,350

4. Taxable Value (TV) of the Industrial Facilities Tax Roll by Class

Fiscal Year Ended June 30	Real	Personal	Total
2004	\$ 14,192,322	\$ 23,798,132	\$ 37,990,454
2003	21,376,963	53,450,900	74,827,863
2002	21,437,436	57,760,000	79,197,436
2001	32,852,600	83,652,400	116,505,000
2000	57,015,950	129,337,200	186,353,150
1999	74,460,175	141,754,300	216,214,475
1998	69,725,825	129,625,600	199,351,425

5. Property Tax Collections

Fiscal Year Ended June 30	Taxes Levied	Collections to March 1	% Collected
2004	\$ 6,364,212	\$ 6,364,212	100.00%
2003	6,068,878	6,053,257	99.74%
2002	6,434,645	6,415,791	99.71%
2001	6,703,618	6,638,605	99.03%
2000	7,470,631	7,446,748	99.68%
1999	8,166,905	7,896,259	96.69%
1998	8,295,052	8,269,905	99.70%
1997	7,610,883	7,601,901	99.88%

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY
Continuing Bond Disclosures (Unaudited)

6. Captured Property Tax Rates
(per \$1,000 of value)

Fiscal Year Ended June 30	(1) City	(2) Schools	(1) State Education Tax	(3) County
2004	13.0000	18.0000	5.0000	5.3744
2003	13.0000	18.0000	6.0000	-
2002	13.0000	18.0000	6.0000	-
2001	13.0000	18.0000	6.0000	-
2000	12.5970	18.0000	6.0000	-
1999	12.7290	18.0000	6.0000	-
1998	12.8840	18.0000	6.0000	-

(1) Levied on homestead and non-homestead properties.

(2) Levied on non-homestead properties only.

(3) Beginning in fiscal year 2003, the DDA captures 100% of the County tax increment in excess of the 2003 taxable value.

7. Taxable Value of Twenty Largest Ad Valorem Taxpayers
(Fiscal Year Ended June 30, 2004)

Taxpayer	Product or Service	Taxable Value	% of Taxable Value
1 Kellogg Company	Breakfast foods	\$ 134,217,285	46.91%
2 Kraft Foods, Post Division	Breakfast foods	39,507,388	13.81%
3 Ralcorp Holdings Inc.	Breakfast foods	15,267,961	5.34%
4 Semco Energy, Inc.	Natural gas utility	10,295,389	3.60%
5 North Pointe Woods	Office building	4,511,311	1.58%
6 Cello-Foil Products, Inc.	Packaging	4,126,992	1.44%
7 Behnke Warehousing, Inc.	Warehousing	2,758,166	0.96%
8 Graham Group, The	Medical office building	2,569,990	0.90%
9 Federated Publications	Newspaper	2,069,368	0.72%
10 Consumers Energy	Electric utility	1,881,224	0.66%
11 BC Equities LTD	Office building	1,870,467	0.65%
12 City of Battle Creek	Municipal government	1,631,659	0.57%
13 Community Hospital Assoc.	Health care	1,433,609	0.50%
14 Lake Jackson Realty LLC	Office building	1,419,159	0.50%
15 Standard Federal Bank	Bank	1,161,578	0.41%
16 BC Tower LLC	Office building	841,073	0.29%
17 Heritage Chevrolet	Automobile dealer	748,495	0.26%
18 Medical Laboratories, Inc.	Medical laboratory	738,107	0.26%
19 RHS, LLC	Hotel	732,750	0.26%
20 Kellogg Federal Credit Union	Credit union	697,816	0.24%
		<u>\$ 228,479,787</u>	<u>79.85%</u>

8. Taxable Value of Three Largest IFT Taxpayers
(Fiscal Year Ended June 30, 2004)

Taxpayer	Product or Service	Taxable Value	% of Taxable Value
1 Kellogg Company	Breakfast foods	\$ 24,811,010	65.31%
2 Kraft Foods, Post Division	Breakfast foods	10,408,215	27.40%
3 Cello-Foil Products, Inc.	Packaging	2,771,229	7.29%
		<u>\$ 37,990,454</u>	<u>100.00%</u>